

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
HAWAIIAN ELECTRIC COMPANY, INC.)
For Approval of a General Rate)
Increase and Revised Rate Schedules)
and Rules.)
_____)

DOCKET NO. 2019-0085

ORDER NO. 36536

REGARDING COMPLETED APPLICATION AND OTHER INITIAL MATTERS

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PUBLIC UTILITIES
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REGARDING COMPLETED APPLICATION AND OTHER INITIAL MATTERS

By this Order,¹ the Public Utilities Commission ("commission") finds that the filing date of HAWAIIAN ELECTRIC COMPANY, INC.'s ("HECO") completed application seeking a general rate increase is August 21, 2019.

The commission will investigate whether the proposed revenue increases, changes in rate schedules and rules, and other matters proposed in HECO's Application are just and reasonable. Consistent with HRS § 269-12, the commission will issue a separate Notice of Public Hearing to notify the Parties and the public of

¹At this time, the Parties to this proceeding are HECO and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an ex officio party to this proceeding, pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 16-601-62(a).

the date, time, and location of the public hearing that will be held on the island of Oahu.

In addition, as part of the commission's investigation, the commission is ordering a management audit of HECO, discussed further below. The commission observes that similar audits are regularly conducted in other jurisdictions and that a management audit will help ensure that HECO is operating in a prudent and efficient manner for the benefit of ratepayers, as well as identify opportunities for improved performance.

After the conclusion of the public hearing, at a later date to be determined, the commission will conduct an evidentiary hearing, and thereafter issue a decision on HECO's Application, in accordance with HRS § 269-16.

The commission instructs the Parties to initiate the discovery process forthwith, and provides information about the filing of a stipulated procedural schedule below.

I.

BACKGROUND

HECO is a corporation duly organized under the laws of the Kingdom of Hawaii on or about October 13, 1891, and now exists under and by virtue of the laws of the State of Hawaii. HECO is an operating public utility engaged in the production, purchase, transmission, distribution, and sale of electricity on the island

of Oahu. Since July 1, 1983, HECO has been a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.²

A.

HECO's Application

1.

Increase In Rates

Consistent with the commission's directives in its Final Decision and Order in Docket No. 2008-0274, the commission's decoupling investigative proceeding for the HECO Companies, HECO filed a Notice of Intent on April 26, 2019, stating that it would file an application for a general rate increase "after June 30, 2019, but not later than September 30, 2019, based on a 2020 calendar test year period."³

²"Application of Hawaiian Electric Company, Inc.; Verification; and Certificate of Service," filed August 21, 2019 ("Application"), at 20.

³"Hawaiian Electric Company, Inc.; Notice of Intent; Verification; and Certificate of Service," filed April 26, 2019, at 1. See also Docket No. 2008-0274, Final Decision and Order, filed on August 31, 2010 (Commissioner Kondo, Leslie H., dissenting) (directing HECO and its affiliated utilities, Maui Electric Company, Ltd. ("MECO") and Hawaii Electric Light Company, Inc. ("HELCO"), to file staggered rate cases every three years, commencing with HECO in 2011, followed by either MECO or HELCO in 2012, with the other following in 2013). HECO, MECO, and HELCO are collectively referred to as the "HECO Companies."

On August 21, 2019, HECO filed its Application for a general rate increase and revised rate schedules and rules. In its Application, HECO seeks to increase its rates by \$77,554,000, or approximately 4.12% over revenues at current effective rates, based on a revenue requirement of \$1,960,400,000 for a calendar 2020 test year ("2020 Test Year") and a 7.97% rate of return (which incorporates a 10.50% return on equity) on an average rate base of \$2,476,801,000.⁴ In addition, the requested relief is based on fuel prices in 2018 and the depreciation rates recently approved in Decision and Order No. 35606, filed on July 30, 2018, in Docket No. 2016-0431.⁵

If the effects of the revenues from the Revenue Balancing Account ("RBA"), Rate Adjustment Mechanism ("RAM"), Major Project Interim Recovery ("MPIR") adjustment mechanism, and Demand Side Management ("DSM") surcharge, which operate as separate cost recovery mechanisms aside from base rates, are included, HECO's requested increase would be \$146,961,000, or approximately 8.10% over revenues at present rates, to achieve a revenue requirement of \$1,960,401,000 and a 7.97% rate of return on an average rate base of \$2,476,801,000.⁶

⁴Application at 12.

⁵Application at 1-2.

⁶Application at 12. The difference of approximately \$1,000 in revenue requirement is due to rounding. Id. n.26.

HECO requests that the commission implement the electric utility's proposed general rate increase and revisions to its rate schedules in the following steps: (1) an "Interim Increase" equal to the increase in rates to which the commission determines HECO is "probably entitled," based on the evidentiary record; and (2) a "Final Increase" when the commission issues its final decision and order to provide for the amount of total requested revenue increase not included in the Interim Increase.⁷

HECO proposes to structure the Interim Increase, if any, as surcharges for its various customer classes based on a percentage of the customer's base revenues (i.e., applied to each class's respective rate schedule revenues at current effective rates).⁸ HECO further requests that the interim increase include the estimated 2020 test year RAM revenues for each rate class, estimated 2020 test year MPIR revenues, DSM surcharge revenues, and estimated revenues from its proposed increases in other operating revenues.⁹

⁷Application at 14.

⁸Application at 15.

⁹Application at 15-16.

Other Requested Relief

In addition to a general rate increase, HECO also seeks approval for modifications to its Energy Cost Recovery Clause ("ECRC") and RBA Provision tariffs, as well as approval for accounting changes regarding contributions in aid of construction ("CIAC") and developer advances.¹⁰

HECO proposes to modify the ECRC tariff to: (1) revise the target heat rate for low sulfur fuel oil ("LSFO") to reflect 2020 test year production simulations; (2) widen the heat rate deadband for LSFO; (3) modify the annual adjustment to the LSFO target heat rate to be bi-directional; and (4) modify the non-adjustable component to reflect 2020 test year fuel handling expenses.¹¹

HECO proposes to modify the RBA Provision tariff such that the monthly allocation factor applicable to target revenues are based on the number of days in the month, and to modify the RBA rate adjustment such that it is applied as a non-bypassable percentage of base revenues.¹²

¹⁰Application at 18-19.

¹¹Application at 17.

¹²Application at 18.

HECO states that it is changing its presentation of CIAC to align with the Federal Energy Regulatory Commission Uniform System of Accounts ("FERC USOA"). As a result, HECO proposes a change in rate base related to the treatment of CIAC associated with projects that are still under construction (i.e., Construction Work in Progress).¹³

HECO notes that the commission already approved HECO's transition to FERC USOA in Docket No. 2013-0007, but makes this explicit request in an abundance of caution.¹⁴

HECO also proposes to include the balance of developer advances as a reduction to rate base, and to reflect this in its rate base RAM filings in a manner consistent with the way CIAC has been treated when the rate base RAM was originally developed.¹⁵

B.

The Consumer Advocate's Position

On September 10, 2019, the Consumer Advocate filed its Statement of Position regarding the completeness of HECO's Application, in which it recommends that the commission find HECO's Application complete and states that the Consumer Advocate intends

¹³Application at 18; and id., HECO T-16 (Patsy H. Nanbu) at 19-20.

¹⁴Application at 18.

¹⁵Application at 19.

to participate in this docket and "will provide its position on [HECO's] requested relief upon the completion of the Consumer Advocate's investigation" ¹⁶

II.

DISCUSSION

A.

Completed Application

HRS § 269-16(d), governing a public utility's application for a general rate increase, states in relevant part:

The commission shall make every effort to complete its deliberations and issue its decision as expeditiously as possible from the date the public utility filed its completed application; provided that in carrying out this mandate, the commission shall require all parties to a proceeding to comply strictly with procedural time schedules that it establishes

Notwithstanding subsection (c), if the commission has not issued its final decision on a public utility's rate application within the nine-month period stated in this section, the commission, within one month after the expiration of the nine-month period, shall render an interim decision allowing the increase in rates, fares and charges, if any, to which the commission, based on the evidentiary record before it, believes the public utility is probably entitled. The commission may postpone its interim rate

¹⁶"Division of Consumer Advocacy's Statement of Position Regarding Completeness of Application," filed September 10, 2019, at 4-5.

decision for thirty days if the commission considers the evidentiary hearings incomplete. . . .

The nine-month period in this subsection shall begin only after a completed application has been filed with the commission and a copy served on the consumer advocate. . . . If the commission finds the application to be incomplete, it shall require the applicant to submit an amended application consistent with its findings, and the nine-month period shall not commence until the amended application is filed.

To be considered a completed application for a general rate increase, the contents of HECO's Application must comply with the requirements set forth in HAR §§ 16-601-75, 16-601-86, and 16-601-87, unless waived by the commission.

The commission finds that HECO's Application complies with the applicable requirements, and is complete and properly filed pursuant to HRS § 269-16(d) and HAR §§ 16-601-86 and 16-601-87. Accordingly, the filing date of HECO's completed Application is August 21, 2019.

B.

Public Hearing

The commission will schedule a public hearing on HECO's complete Application on the island of Oahu, consistent with HRS §§ 269-12(c) and 269-16(b). The commission will: (1) notify the Parties of the date, time, and location of the public hearing;

and (2) arrange for the publication of its Notice of Public Hearing.

C.

Proposed Procedural Order

Given the deadlines set forth in HRS § 269-16(d) governing commission decision-making, the Parties shall: (1) initiate the discovery process without delay; and (2) submit a stipulated procedural order for the commission's review and consideration. If the Parties are unable to agree on a stipulated procedural order, each Party shall submit its own proposed procedural order.

If no motions to intervene or participate are filed, the Parties shall submit a stipulated procedural order or individual proposals within three business days following the deadline to file any such motions to intervene or participate.

If one or more motions to intervene or participate are filed, the Parties and designated intervenors, if any, shall submit a stipulated procedural order or individual proposals within six business days of the filing of the commission's decision on the motions to intervene or participate.

If no agreement is reached on a stipulated procedural order, the commission will issue its own procedural order.

D.

Management Audit

As part of this general rate case proceeding, the commission is ordering a management audit of HECO. The commission observes that similar audits are common in other jurisdictions,¹⁷ and believes that such in-depth investigation is desirable to promote transparency and understanding of HECO's management practices and its related expenses, which are included as part of its proposed general rate increase. Additionally, the management audit may present opportunities for HECO to realize operational efficiencies, better manage costs, and improve its financial condition.

The commission notes that other jurisdictions produce extensive public utility audits.¹⁸ In light of time and resource considerations, the commission will focus the management audit on

¹⁷See e.g., Conn. Gen. Stat. Ann. § 16-8 (Examination of witnesses and documents. Hearings officers. Management audits); Me. Rev. Stat. Ann. 35-A § 113 (Management Audit); N.J. Stat. Ann. § 48:2-16.4 (Management audits); N.Y. Public Service Law § 66 (General powers of commission in respect to gas and electricity); N.C. Gen. Stat. § 62-37 (Investigations); 66 Pa. Cons. Stat. § 516 (Audits of certain utilities); and Tex. Util. Code § 14.202 (Management Audits by Commission).

¹⁸For example, New York produces both management and operations audits of its electric and gas utilities. See e.g., New York Public Service Commission Case Number 08-E-0827 (Management Audit of National Grid Electric Business) and Case Number 14-M-0449 (Operations Audit of Staffing Levels at the Major New York State Energy Utilities).

the following areas, which the commission views to be the highest priority at this time:

- (1) Governance and Executive Leadership;
- (2) Capital and Operations & Maintenance Planning, Budgeting, and Investment Strategy; and
- (3) Program and Project Management.

These areas have been the subject of focus in other public utility management audits,¹⁹ and the commission finds that they provide a reasonable starting point for evaluating HECO's management policies and practices. In examining these areas, the management audit will seek to deliver a number of tangible outcomes, such as identifying specific opportunities for improvement in governance, executive leadership, management, operations planning, and improving overall business performance. The management audit will also develop recommendations and action plans for implementing any identified changes necessary to achieve performance improvements.

The management audit will be conducted by Munro Tulloch, Inc. Ray Tulloch, principal of Munro Tulloch, Inc., will lead the management audit, which will be conducted

¹⁹See N.Y.P.S.C Case No. 08-E-0827, "Comprehensive Management Audit of Niagara Mohawk Power Corporation d/b/a National Grid Electric Business," submitted December 4, 2009.

independently by Mr. Tulloch and his team.²⁰ Mr. Tulloch is expected to conduct the management audit over five broad phases, including:

1. Project initiation and planning;
2. Initial review, interview, and development of initial findings;
3. Focused analysis in specified areas;
4. Quantitative and qualitative cost-benefit analyses and analysis of rate case impacts; and
5. Development of recommendations, action plans, and final audit report.

The management audit is expected to begin approximately in October 2019 and conclude approximately in May 2020.²¹ HECO will have an opportunity to review Mr. Tulloch's draft audit report and provide comment and feedback, which may be incorporated into the final audit report. Upon issuance of the final audit report, the report will be filed in this docket where it will become part of the docket record.²² Following the filing of the final audit report, the commission intends to make any necessary

²⁰See HRS §§ 269-3, 269-6, and 269-7(a).

²¹The detailed schedule for the management audit will be subsequently conveyed by Mr. Tulloch and his team.

²²HECO's comments on the draft audit report will be included as an attachment to the final audit report.

adjustments to the procedural schedule to allow the Parties²³ an opportunity to address the findings and recommendations of the final audit report.

Concomitantly, the commission vests Mr. Tulloch and his audit team with the full investigatory powers of the commission under HRS Chapter 269, including, but not limited to, HRS §§ 269-6, -7, -8, and -10. HECO shall comply fully and timely with the audit team's requests.

III.

ORDERS

THE COMMISSION ORDERS:

1. The filing date of HECO's completed Application is August 21, 2019.

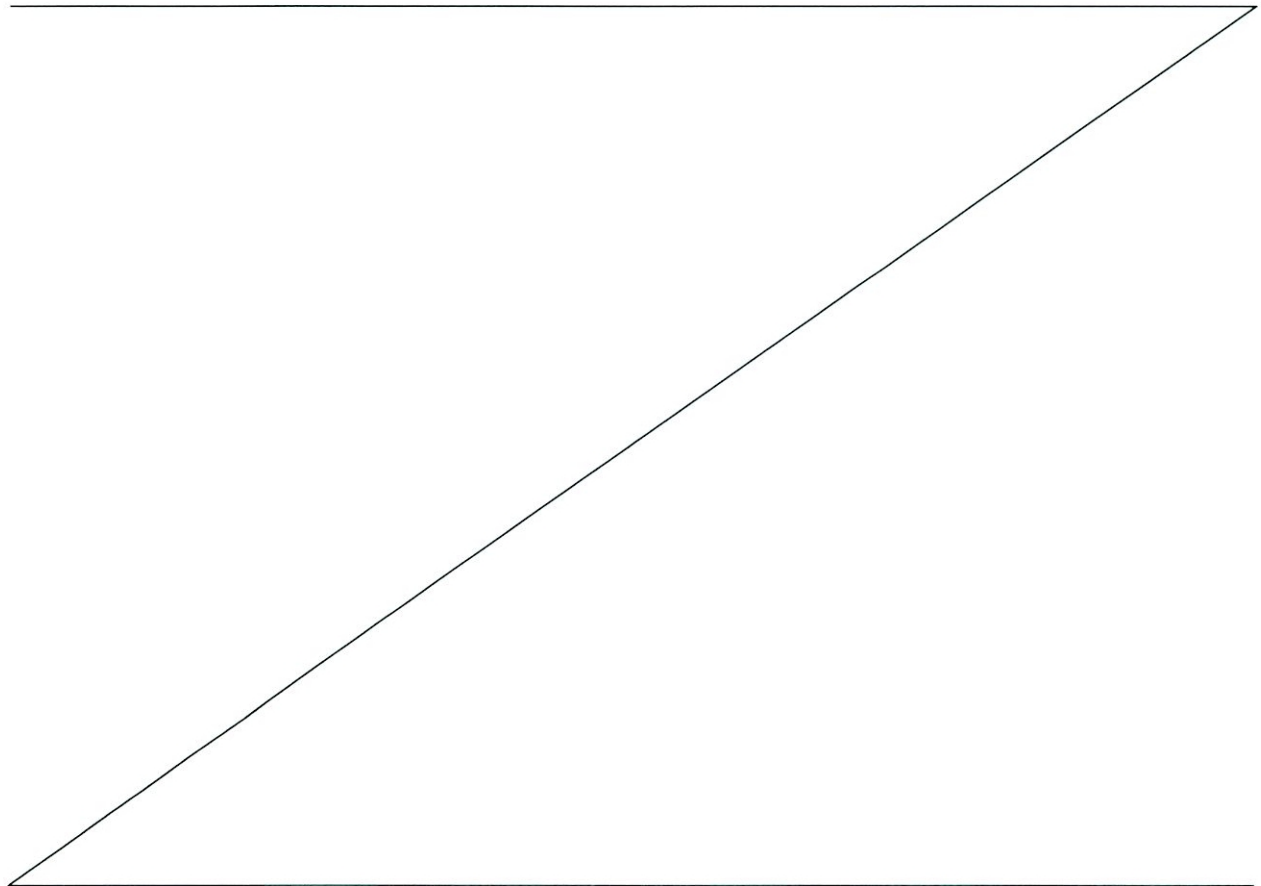
2. The Parties shall (A) initiate the discovery process without delay, and (B) submit a stipulated procedural order for the commission's review and consideration. If the Parties are unable to agree on a stipulated procedural order, each Party shall submit its own proposed procedural order.

²³To the extent other individuals or entities are admitted as intervenors or participants, their ability to address the final audit report will depend on the scope of their participation, as established by the commission.

If no motions to intervene or participate are filed, the Parties shall submit a stipulated procedural order or individual proposals within three business days following the deadline to file any such motions to intervene or participate.

If one or more motions to intervene or participate are filed, the Parties and designated intervenors, if any, shall submit a stipulated procedural order or individual proposals within six business days of the filing of the commission's decision on the motions to intervene or participate.

If no agreement is reached on a stipulated procedural order, the commission will issue its own procedural order.



3. Ray Tulloch, principal of Munro Tulloch, Inc., will lead the management audit of HECO, which will be conducted independently by Mr. Tulloch and his team. Mr. Tulloch and his team are vested with the commission's full authority to conduct the management audit, as described above. HECO shall comply fully and timely with the audit team's requests.

DONE at Honolulu, Hawaii SEP 23 2019.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By James P. Griffin
James P. Griffin, Chair

By Jennifer M. Potter
Jennifer M. Potter, Commissioner

By Leodoloff R. Asuncion, Jr.
Leodoloff R. Asuncion, Jr., Commissioner

APPROVED AS TO FORM:

Mark Kaetsu
Mark Kaetsu
Commission Counsel

2019-0085.kmc

CERTIFICATE OF SERVICE

The foregoing order was served on the date of filing by mail,
postage prepaid, and properly addressed to the following parties:

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